

April 2015

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Recommended Citation

Bunsis, Howard (2015) "Analyzing University and College Financial Statements," *Journal of Collective Bargaining in the Academy*: Vol. 0 , Article 7.

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Analyzing University and College Financial Statements

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Eastern Michigan University
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National Center for the Study of Collective Bargaining in
Higher Education and the Professions, Hunter College
April 2015**

Two Main Goals



**Does the University
have money?**

Ratio Analysis

**Are they spending the
money the right way?**

Expense Analysis

What Financial Information Do You Need?



Audited
Financials

Budgets



**IPEDS: Integrated
Postsecondary
Education Data System:**



Pressure on Tuition Revenue for Public and Private Universities per Moody's

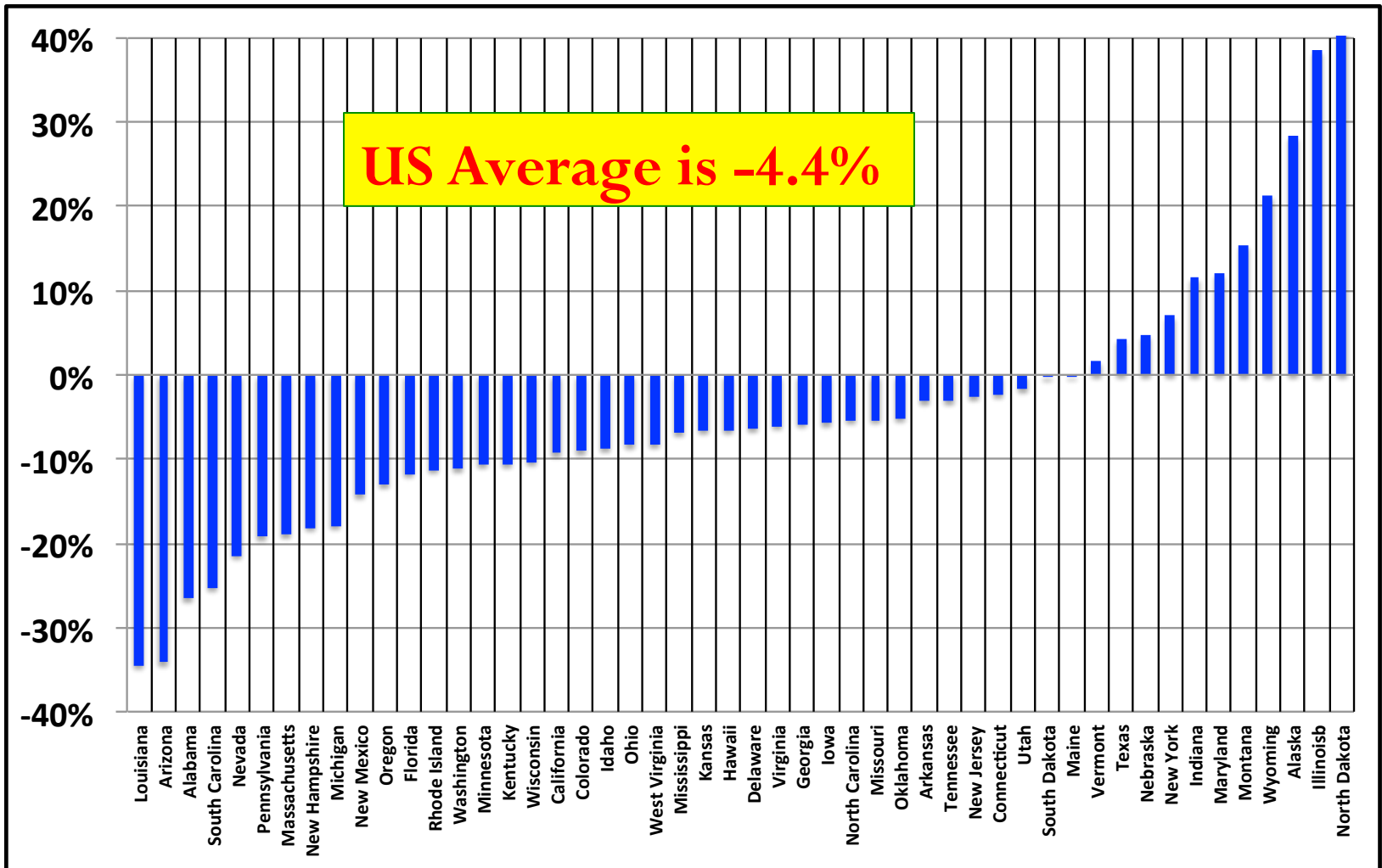
- **Price pressure on private universities**
- **Public and political pressure on affordability**
- **Limitations on tuition increases in some states**
- **Declining pool of graduating high school students**

Versus

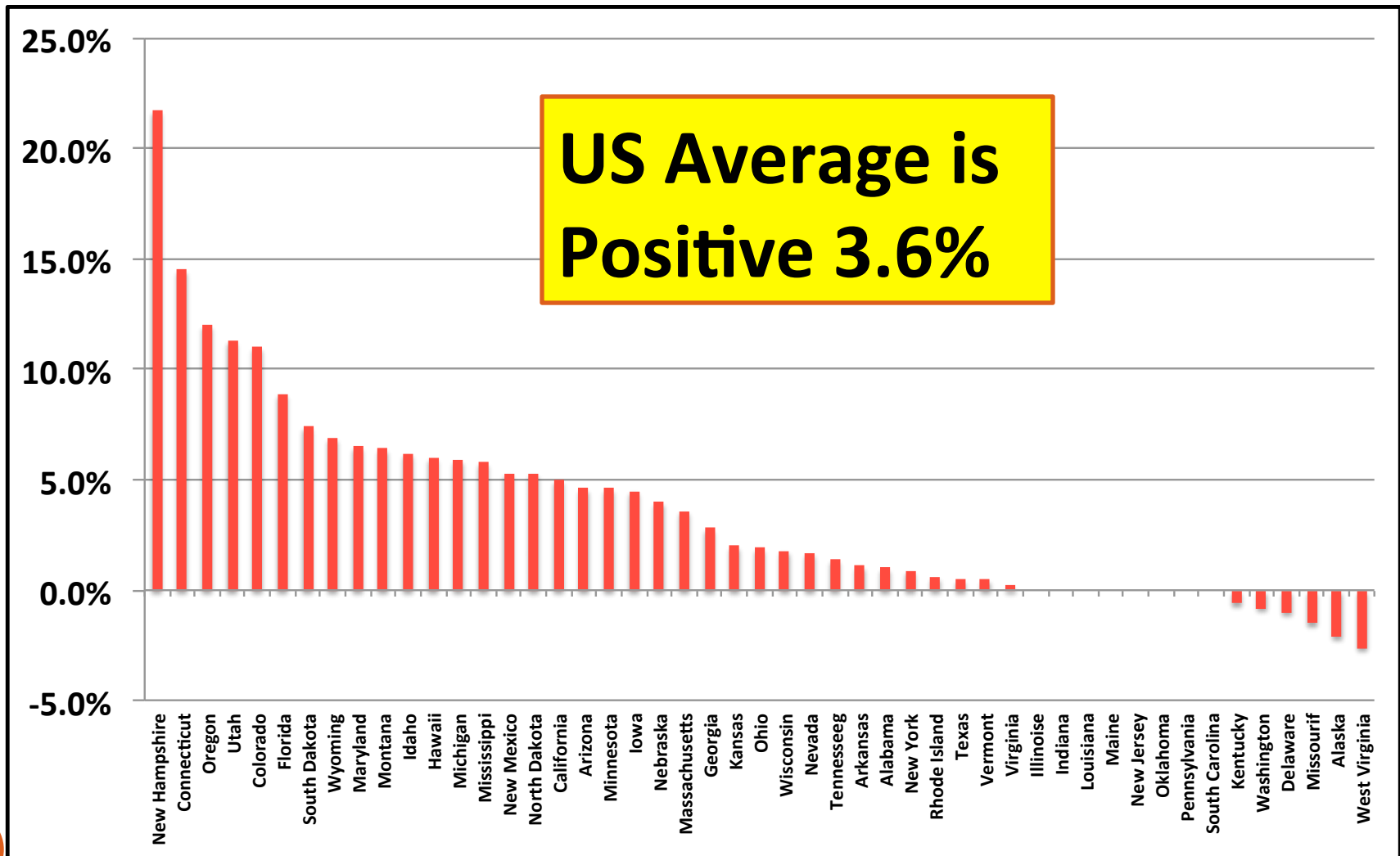
**Strong demand for
higher education**

State Appropriations: 6-Year % Change (2008 to 2014)

Source: Grapevine Report, 2014.

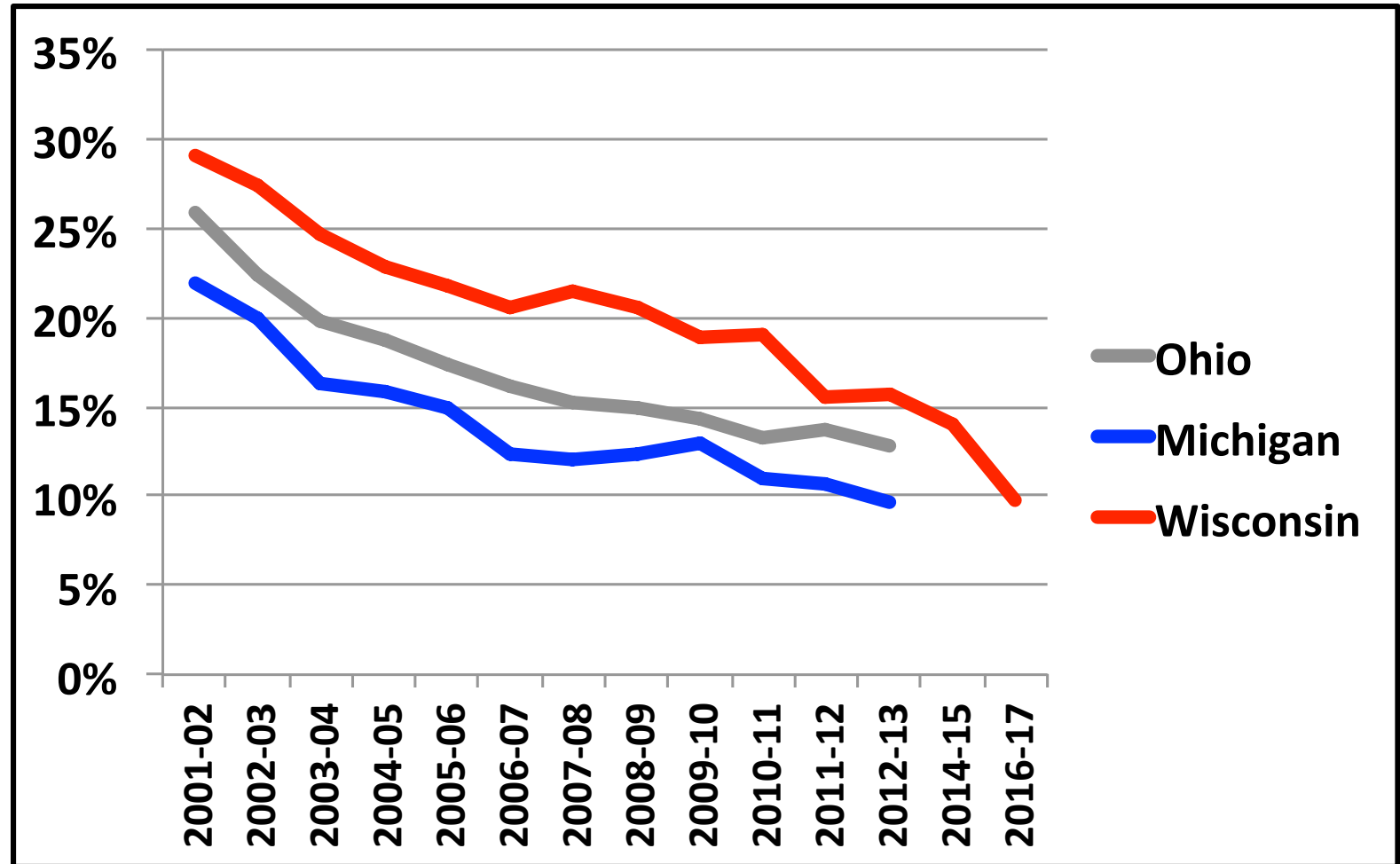


1-Year Change in State Appropriation: 2013-14 to 2014-15 per Grapevine (July 10, 2014)

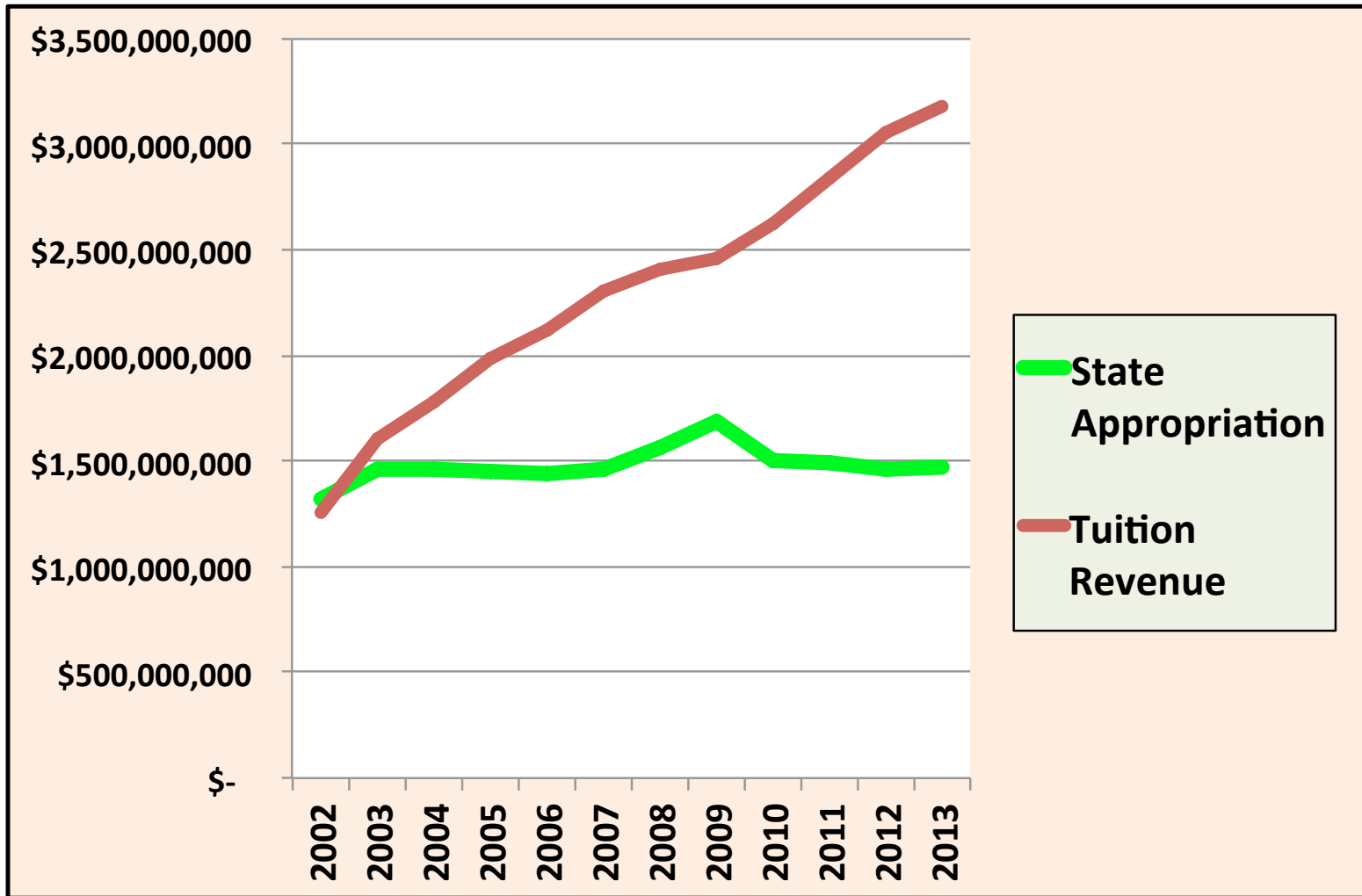


State Appropriation as a Percent of Total Revenues in Ohio, Michigan, and Wisconsin

Source: IPEDS

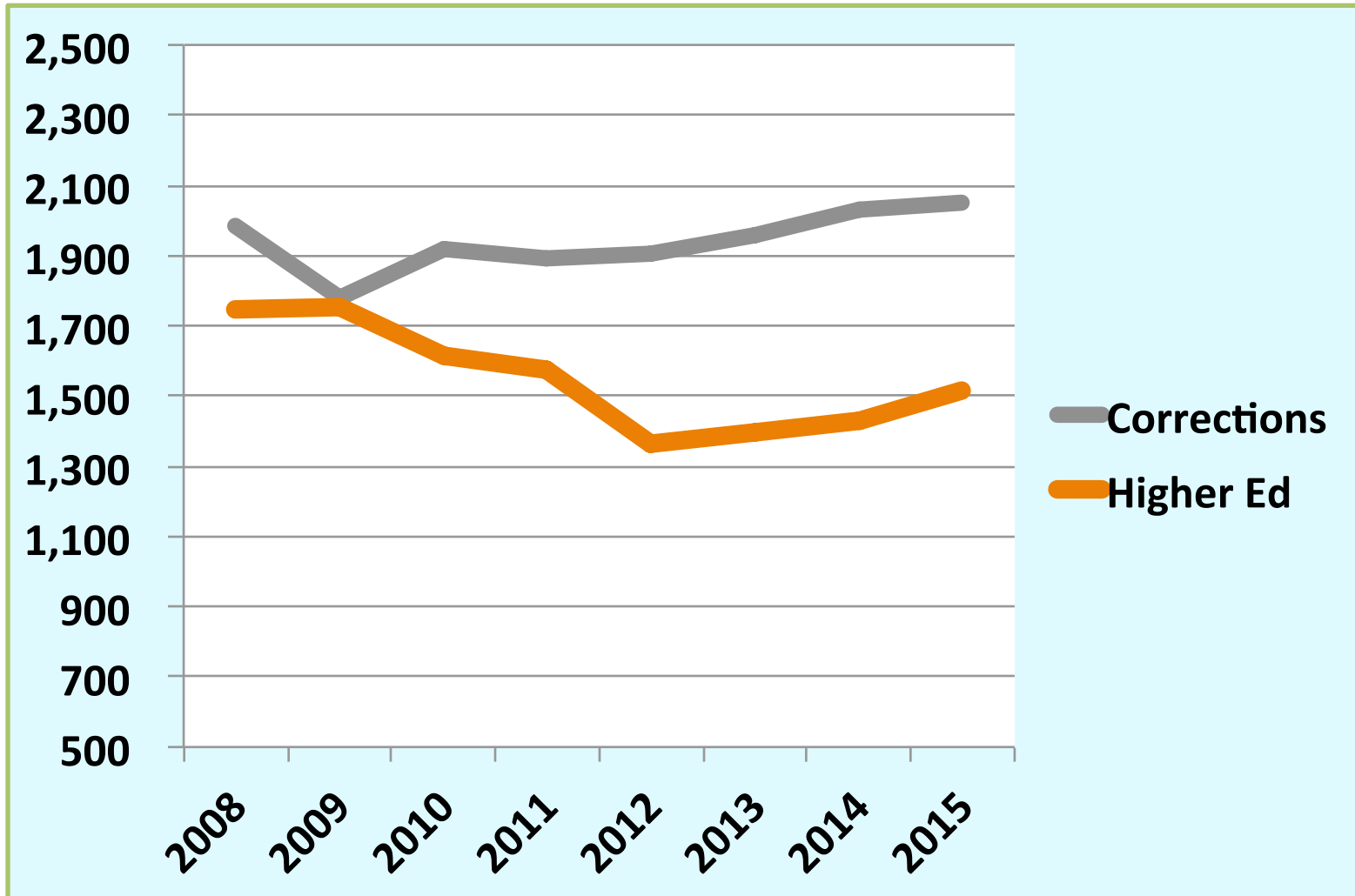


All Ohio Publics: State Appropriation vs. Tuition Revenue

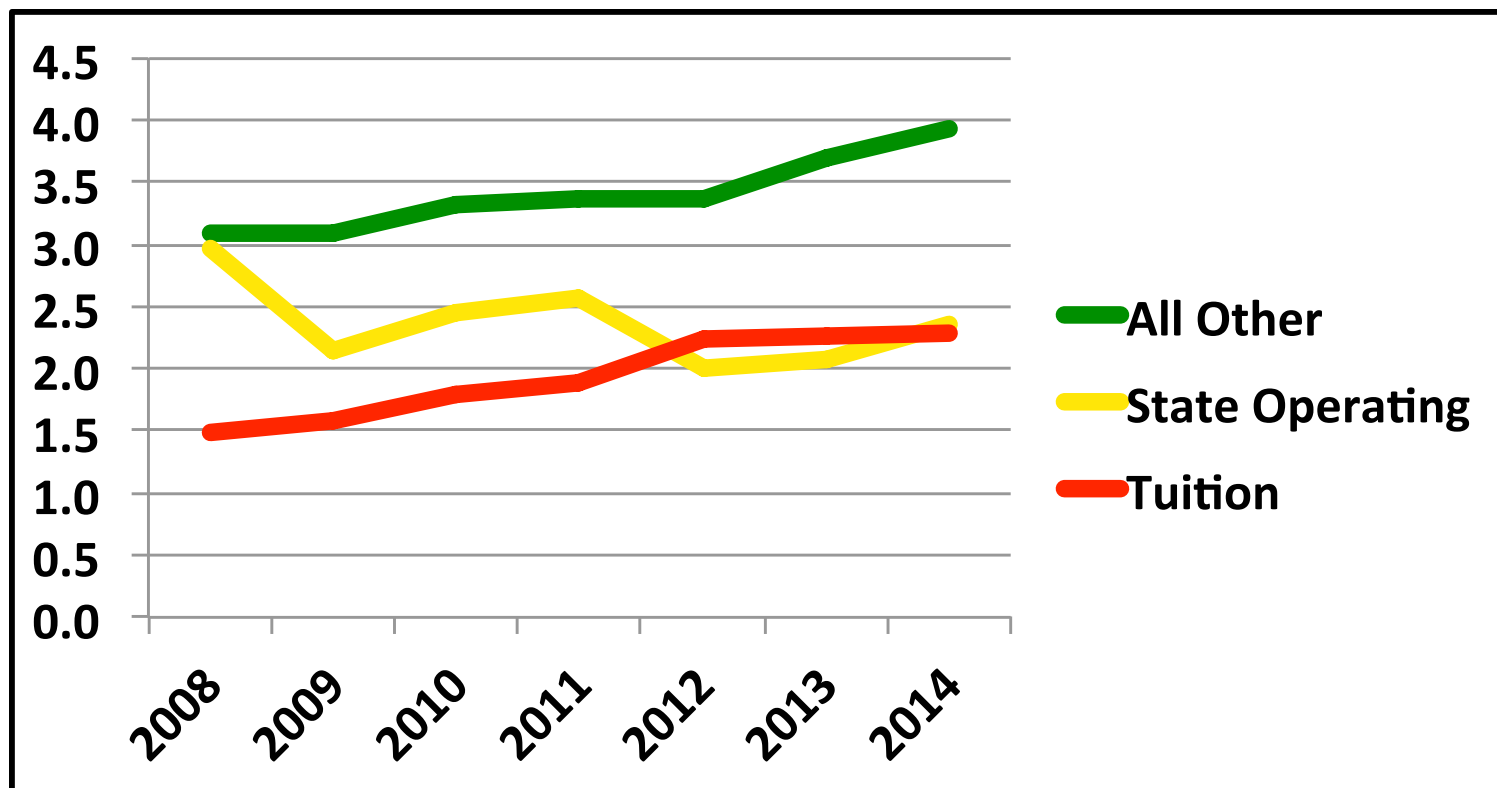


Higher Ed Funding in Michigan: Corrections vs. Higher Ed

Source: Executive Budget 2015-16; Amounts in Millions

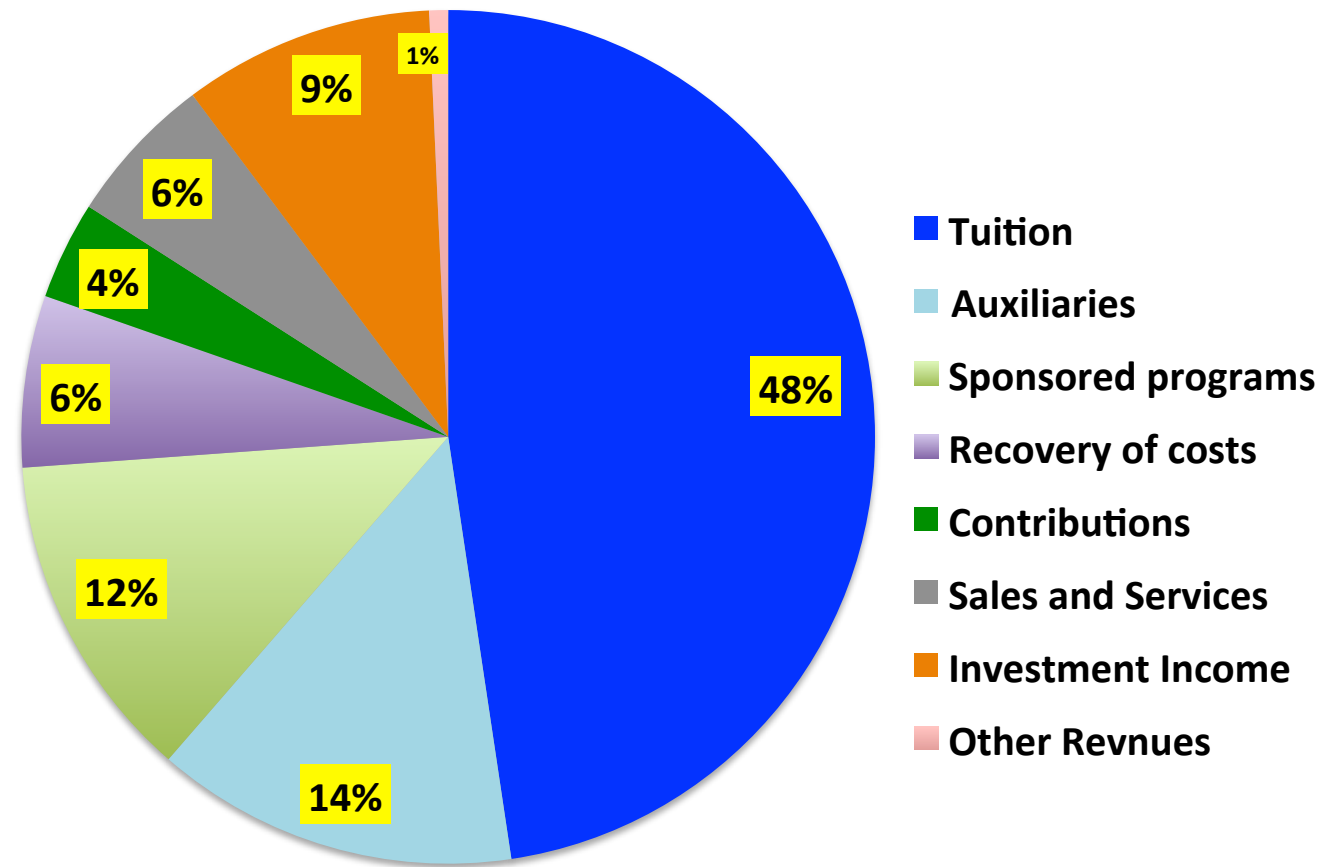


Cal State University System Revenues

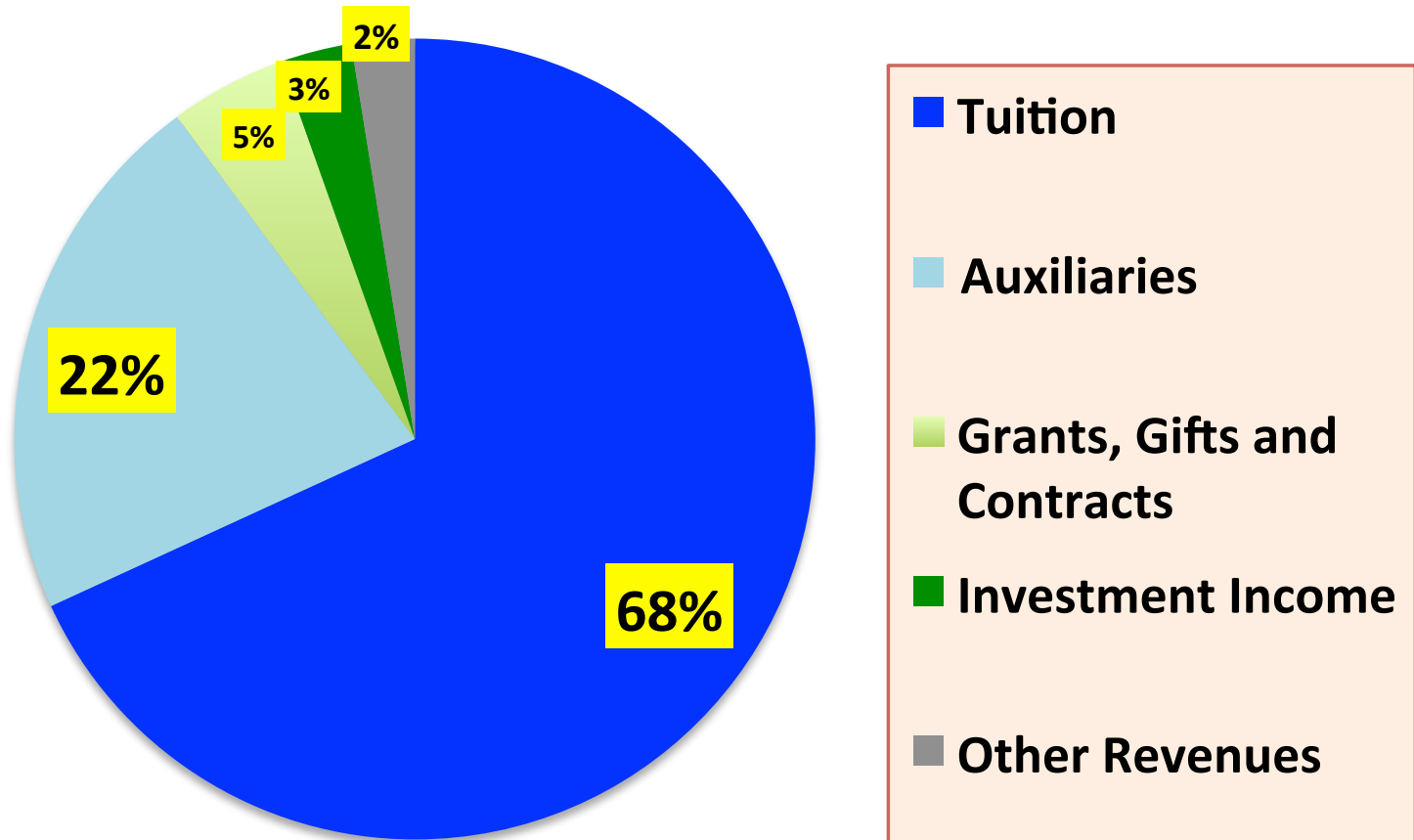


| In billions | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------------|------|------|------|------|------|------|------|
| All Other | 3.09 | 3.10 | 3.32 | 3.36 | 3.36 | 3.70 | 3.93 |
| State Operating | 2.97 | 2.15 | 2.44 | 2.58 | 2.00 | 2.07 | 2.35 |
| Tuition | 1.48 | 1.59 | 1.80 | 1.88 | 2.23 | 2.25 | 2.28 |
| Total Revenues | 7.54 | 6.84 | 7.57 | 7.82 | 7.59 | 8.02 | 8.56 |

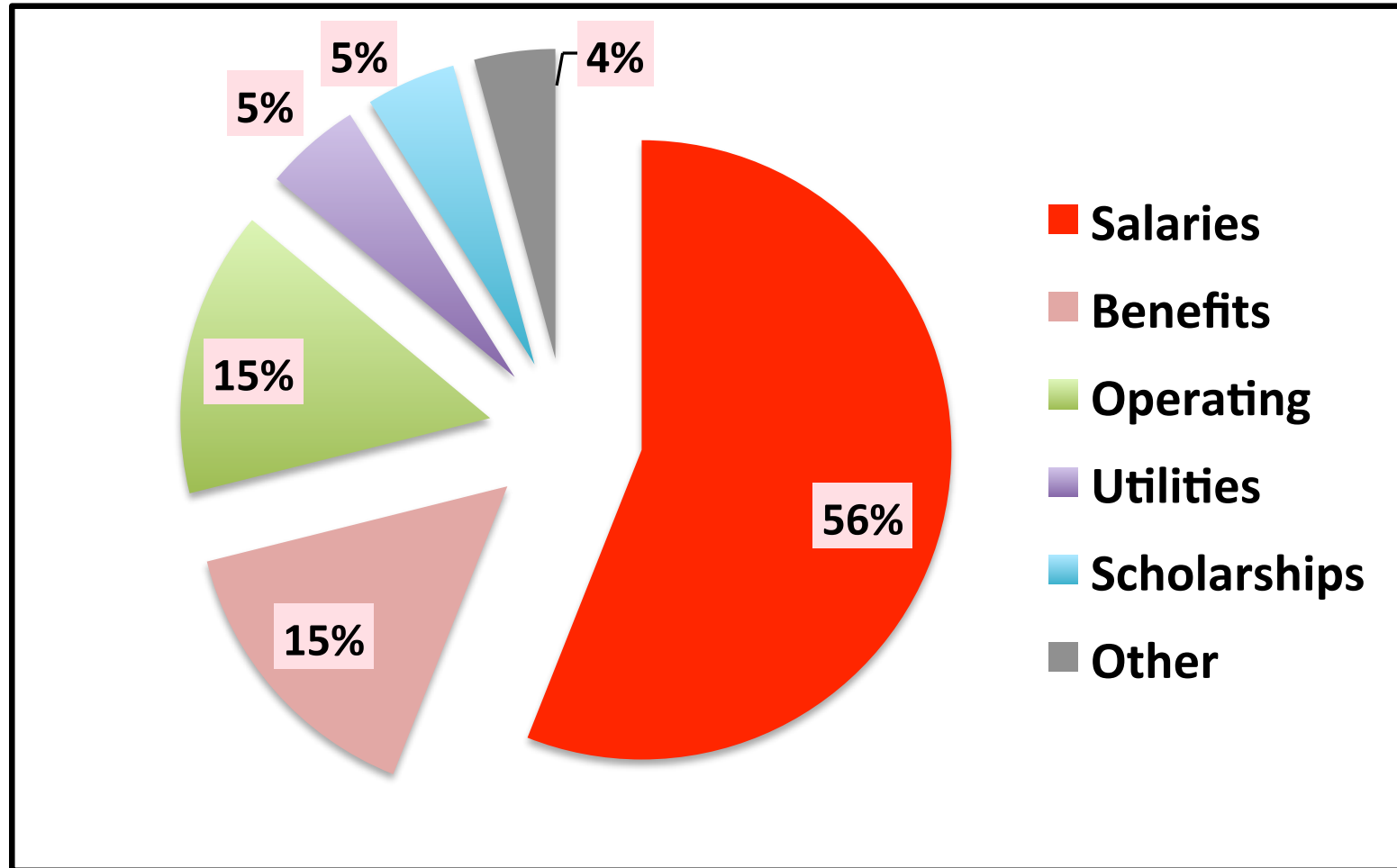
Boston University 2014 Revenue Distribution



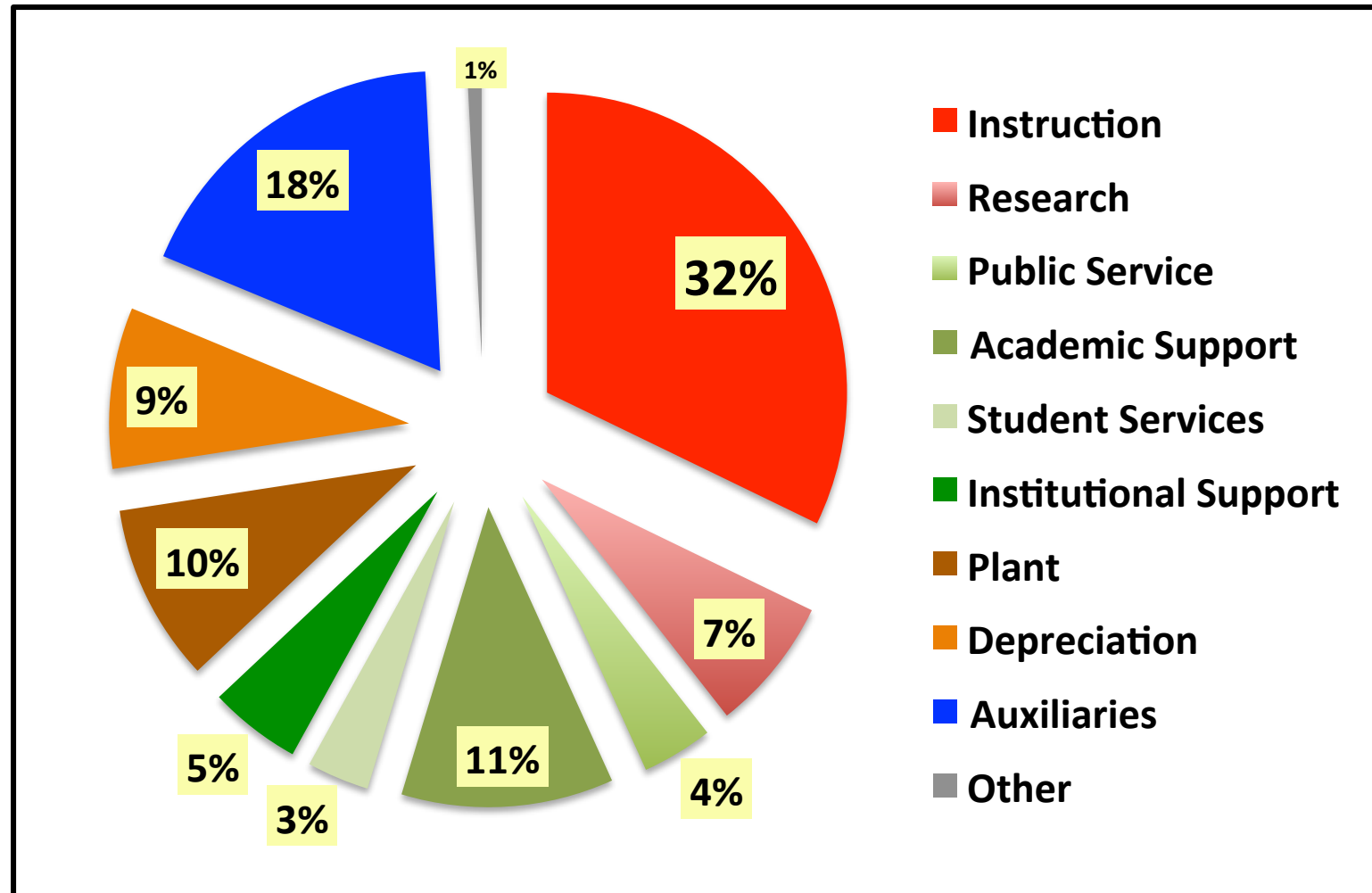
Robert Morris University 2014 Revenue Distribution



2014 Expense Distribution: University of Guelph



Expense Distribution: Functional Classification for UCONN, 2014



Financial Statements Names

| For-Profit Sector | Public Universities | Private Universities/Colleges | Fund Statements |
|--|--|--|---|
| Balance Sheet | Statement of Net Assets | Statement of Financial Position | Fund Balance Sheet |
| Income Statement | Statement of Revenue, Expenses, and Changes in Net Assets | Statement of Activities | Statement of Revenues, Expenditures, and Changes in Fund Balance |
| Statement of Cash Flows | Statement of Cash Flows | Statement of Cash Flows | Only for Proprietary Funds |
| Statement of Shareholder's Equity | None | None | None |

Statement of Net Assets or The Balance Sheet



Revenues, Expenses & Changes in Net Assets

Total
Revenues



Total
Expenses



Change in
Net Assets

Cash Flow

Cash Flows from Operating Activities



Cash Flows from Non-Capital and Cash Flow from Capital Financing Activities

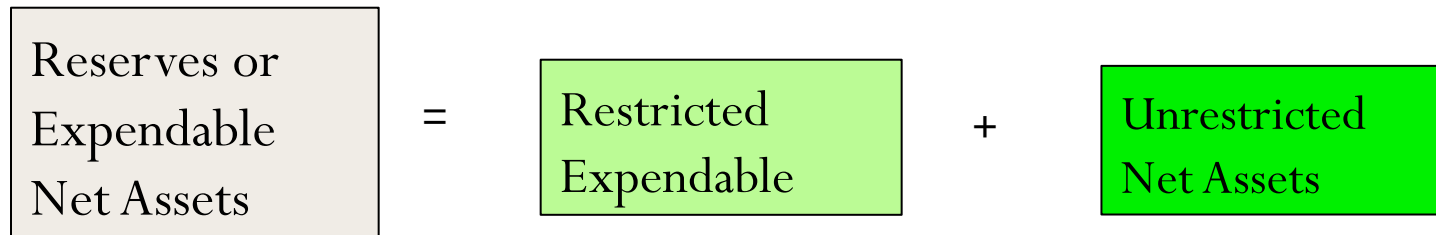
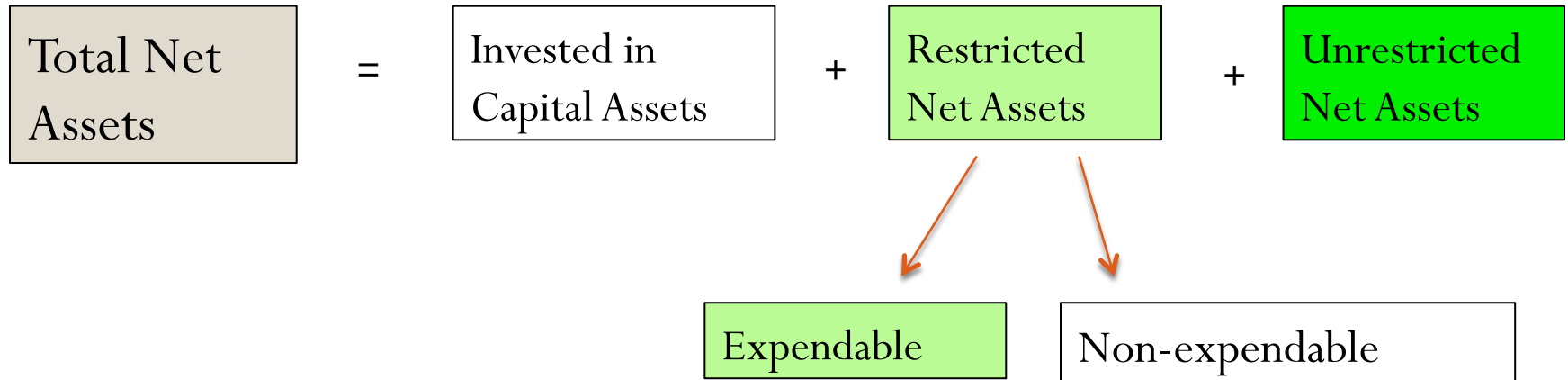


Cash Flows from Investment Activities

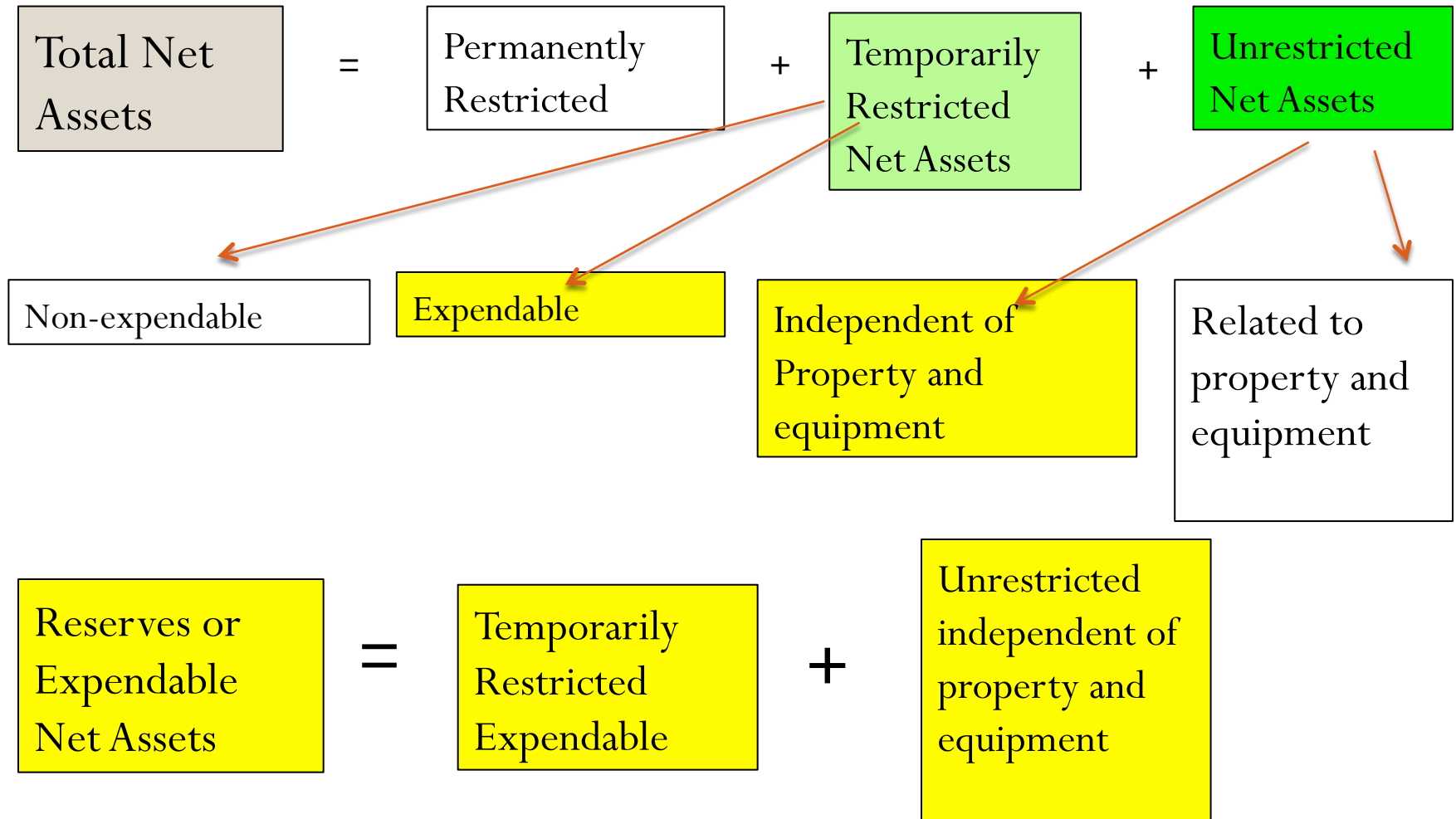


Net Increase (Decrease) in Cash

Reserves in the Public Sector



Reserves in the Private Sector



Net Assets: Reserves - Redlands

| In Millions | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|------------------------|-------|-------|-------|-------|-------|-------|-------|
| Unrestricted | 103.0 | 52.3 | 60.4 | 60.2 | 55.2 | 60.4 | 67.0 |
| Temporarily Restricted | 19.2 | 31.0 | 25.0 | 32.2 | 30.5 | 32.1 | 42.8 |
| Permanently Restricted | 86.7 | 87.6 | 89.4 | 95.0 | 96.7 | 99.5 | 106.3 |
| Total Net Assets | 208.9 | 170.9 | 174.9 | 187.4 | 182.4 | 192.1 | 216.2 |

Not all of the unrestricted are true reserves – we have to take out the part devoted to the buildings. How much of the \$216 million are true reserves? See the next slide

Source: Audited financial statements

Further Analysis of Reserves - Redlands

| In Millions | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------------------|-------|-------|------|------|------|------|------|
| Unrestricted | 103.0 | 52.3 | 60.4 | 60.2 | 55.2 | 60.4 | 67.0 |
| Take Out Invested in Plant | 58.3 | 53.6 | 60.4 | 55.3 | 51.3 | 51.8 | 48.6 |
| True Unrestricted Reserves | 44.7 | (1.3) | 0.0 | 4.9 | 3.9 | 8.6 | 18.4 |
| Temporarily Restricted | 19.2 | 31.0 | 25.0 | 32.2 | 30.5 | 32.1 | 42.8 |
| Total Reserves | 63.9 | 29.7 | 25.1 | 37.1 | 34.4 | 40.7 | 61.3 |

We now need to put these reserves in context; how large is \$61.3 million? We will compare to expenses and debt

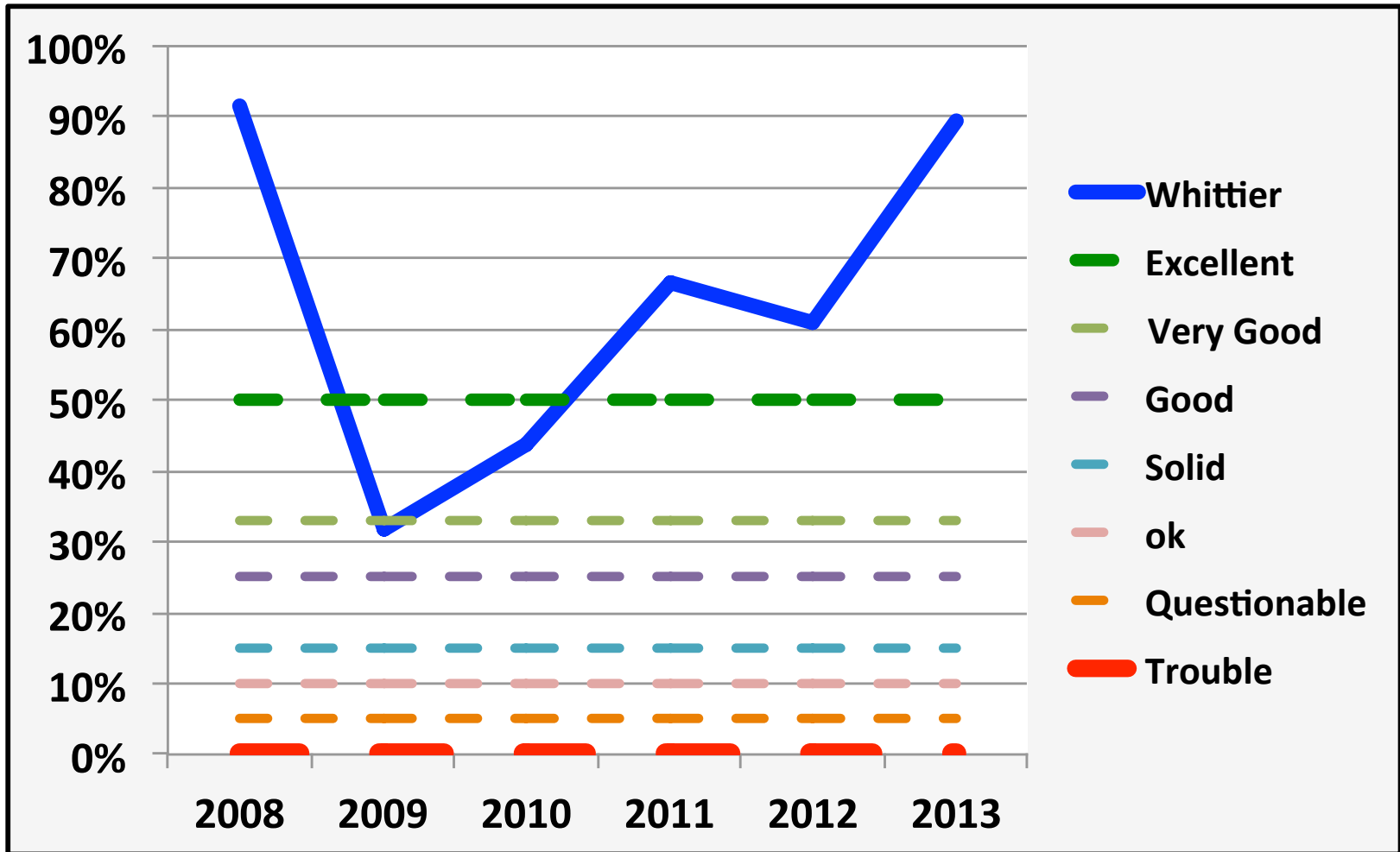
Size of Reserves Relative To: Operating Expenses and Debt at Whittier

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Reserves | 52.9 | 19.3 | 26.9 | 42.8 | 41.1 | 62.8 |
| Operating Expenses | 57.7 | 61.0 | 61.2 | 64.2 | 67.4 | 70.2 |
| Primary Reserve Ratio | 92% | 32% | 44% | 67% | 61% | 89% |
| | | | | | | |
| | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 |
| Reserves | 52.9 | 19.3 | 26.9 | 42.8 | 41.1 | 62.8 |
| Debt | 59.3 | 58.3 | 55.4 | 54.5 | 53.4 | 52.4 |
| Viability Ratio | 89% | 33% | 48% | 79% | 77% | 120% |

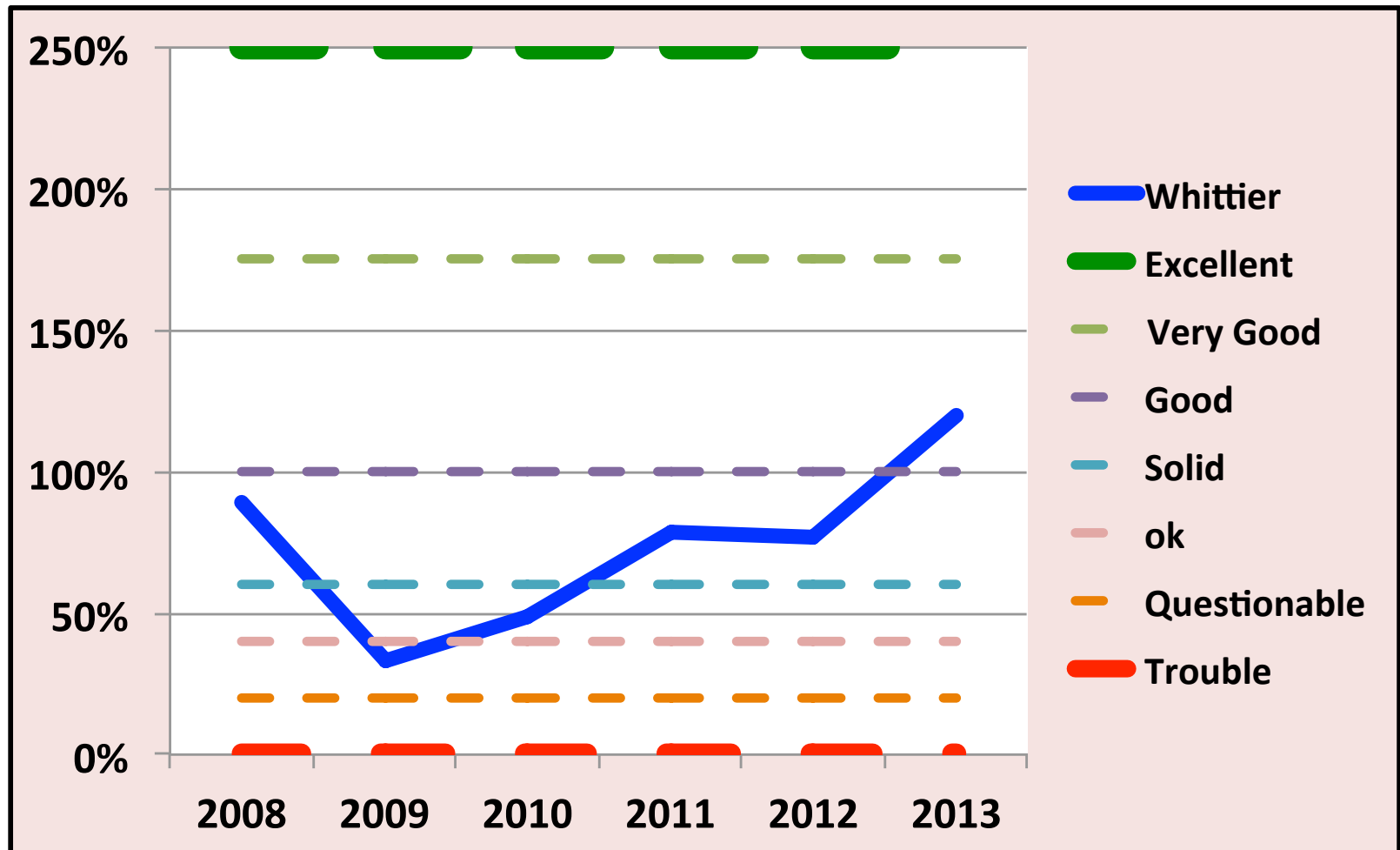
Summary of Ratios

| Ratio | Numerator | Denominator | Weight in Formula |
|-----------------|----------------------|-----------------|-------------------|
| Primary Reserve | Total Reserves | Annual Expenses | 40.0% |
| Viability | Total Reserves | Total Debt | 22.5% |
| Net Asset | Change in Net Assets | Total Revenues | 12.5% |
| Cash Flow | Operating Cash Flows | Total Revenues | 25.0% |
| | | | |
| | Level of Ratio | | |
| | Poor | Average | Excellent |
| Primary Reserve | Less than 10% | 15% to 25% | More than 50% |
| Viability | Less than 30% | 50% to 100% | More than 250% |
| Net Asset | Anything Negative | 1% to 3% | More than 5% |
| Cash Flow | Anything Negative | 1% to 3% | More than 5% |

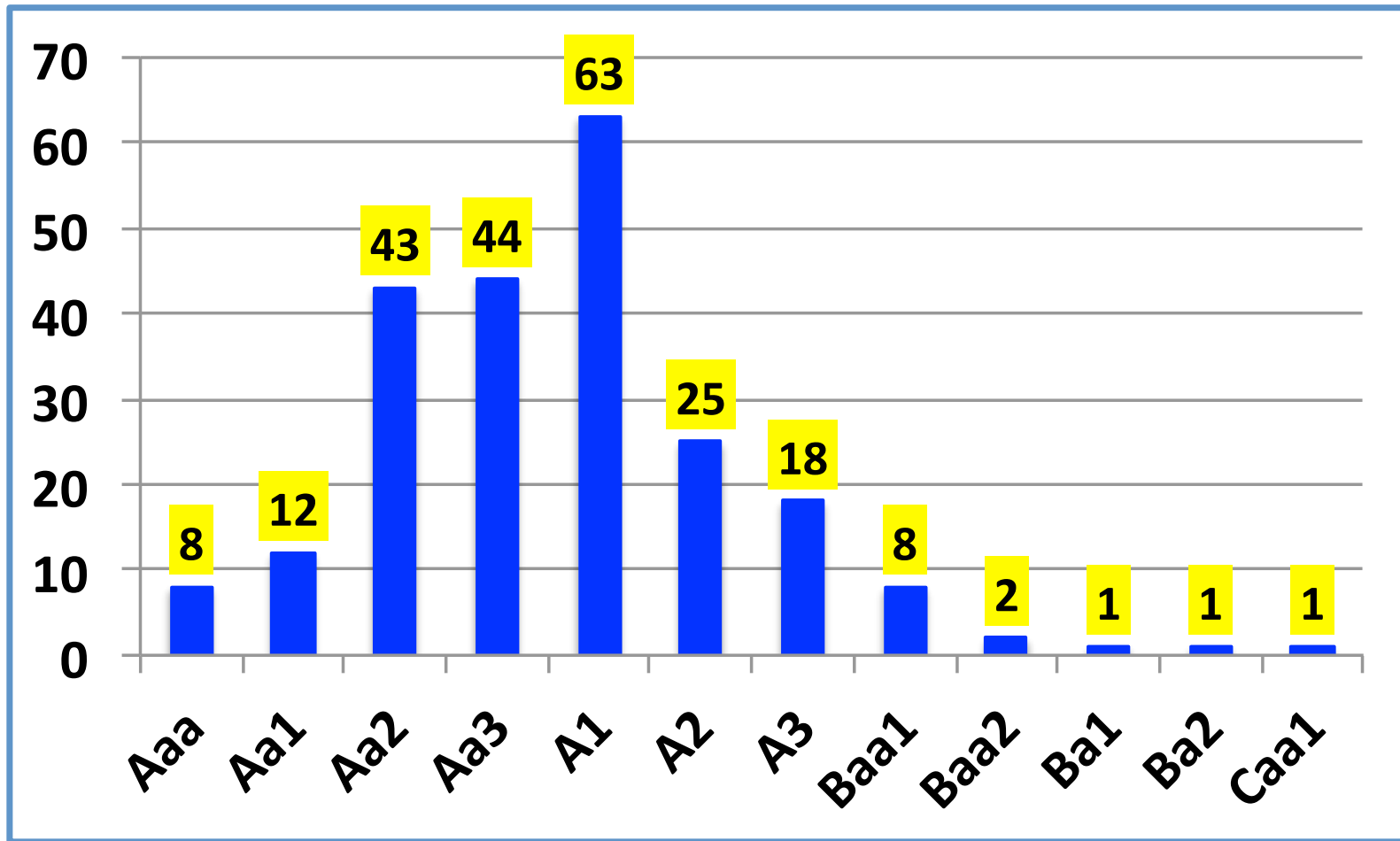
Primary Reserve Ratio in Context



Viability Ratio in Context



Moody's 2014 Bond Ratings of Public Universities

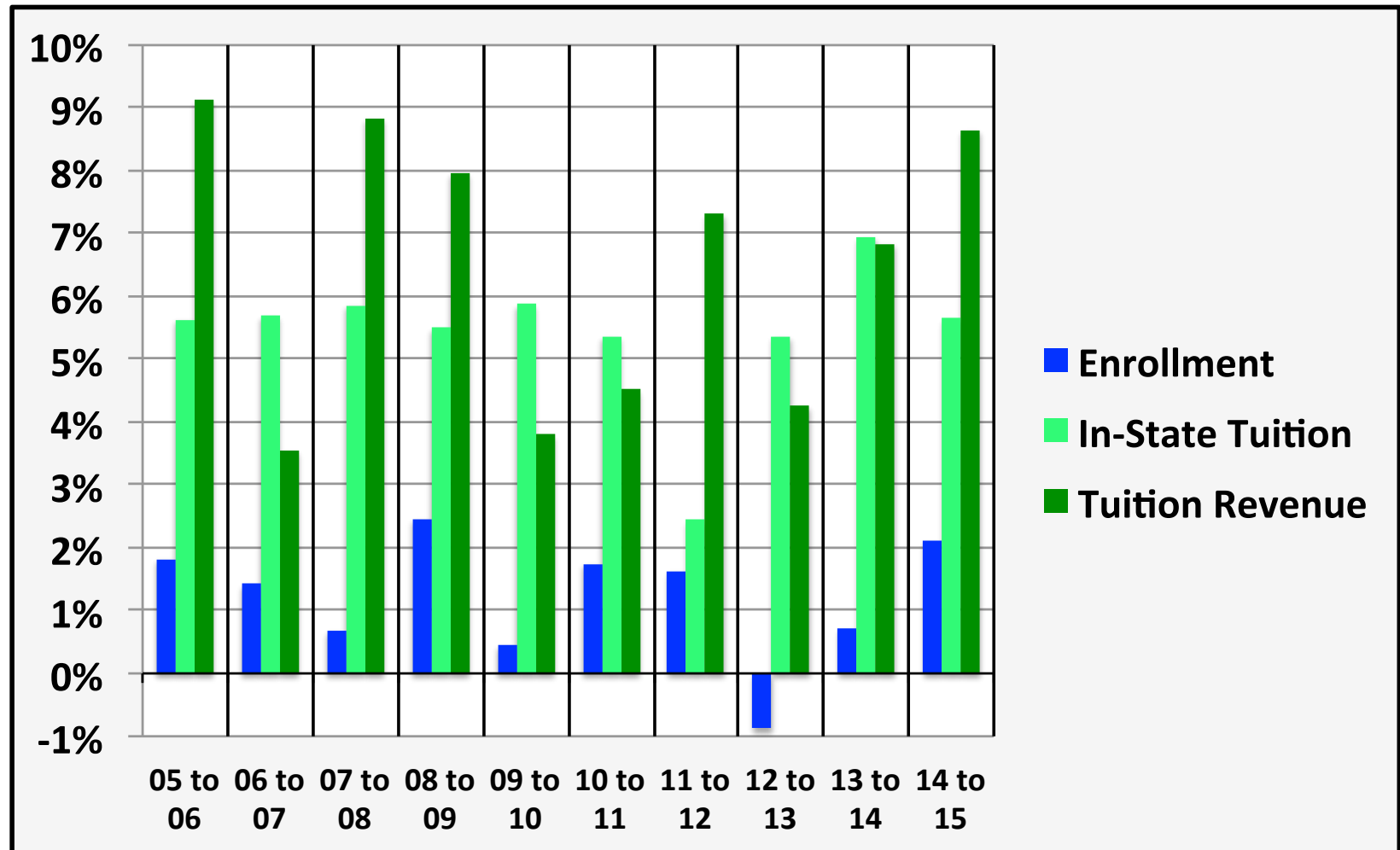


8 Universities with Aaa Moody's Bond Ratings



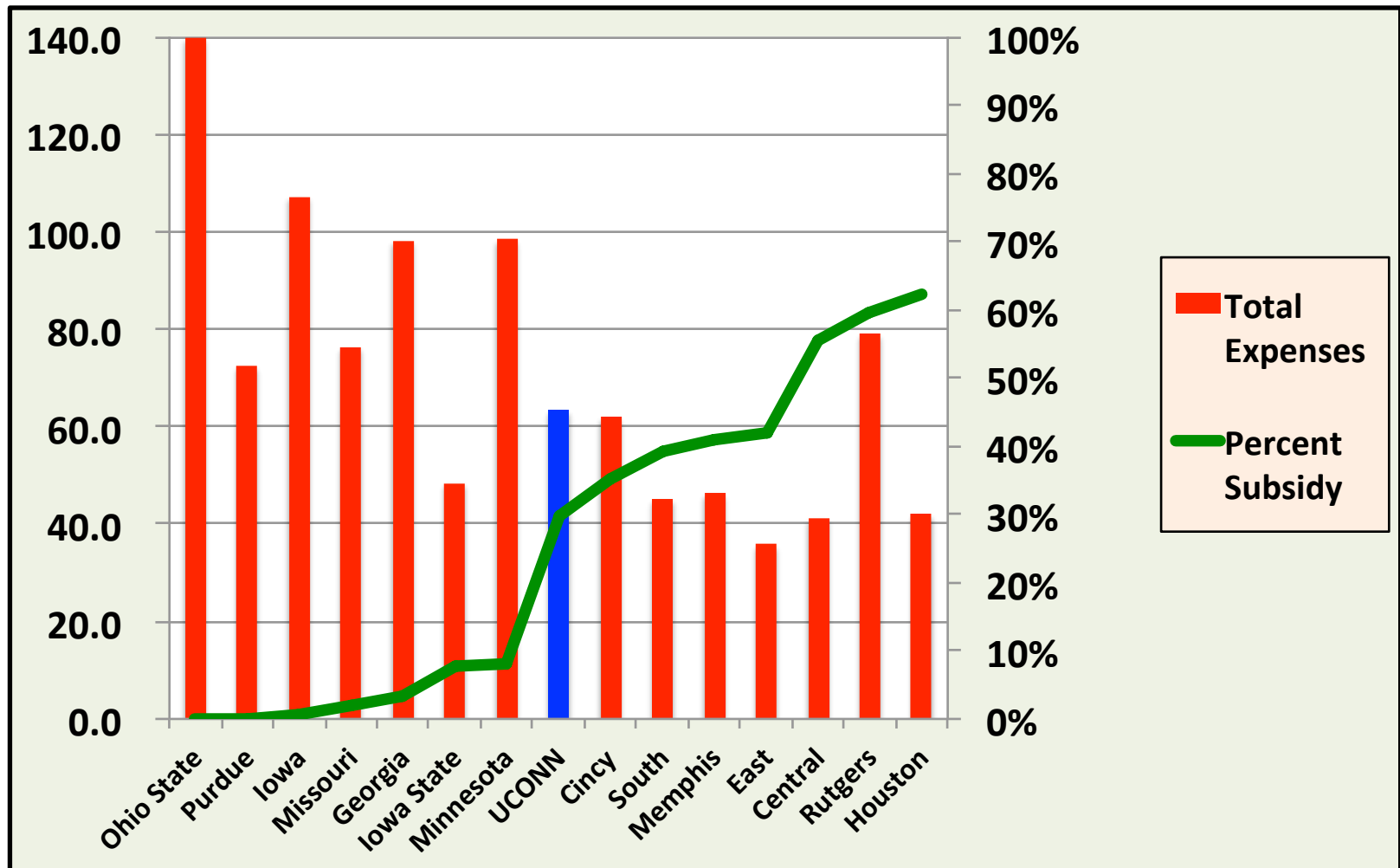
Analysis of Tuition Revenue Changes

Sources: UCONN Office of Institutional Research and Effectiveness; Audited Financial Statements



2013 Subsidy Percentages for UCONN and Other Peers

Source: Data Per USA Today; Expenses in Millions



2007-2013 Graduation Rates and Pell Grants Ohio Publics per IPEDS

